



News Release

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IRS Announces New Tip Reporting Program

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WASHINGTON — The Internal Revenue Service today released formal guidance on its new tip reporting procedure, the Attributed Tip Income Program (ATIP). ATIP expands the existing IRS tip reporting and education program by offering employers in the food and beverage industry an additional tip reporting program. ATIP reduces industry recordkeeping burdens, has simple enrollment requirements and promotes reporting tips on Federal income tax returns.

ATIP provides benefits to employers and employees similar to those offered under previous tip reporting agreements. However, ATIP does not require employers to meet with the IRS to determine tip rates or eligibility. Employers are not required to sign an agreement with the IRS to participate. Like other tip reporting programs, participation by employers and their employees is voluntary.

Employers who participate in ATIP report the tip income of employees based on a formula that uses a percentage of gross receipts, which are generally attributed among employees based on the practices of the restaurant.

Employers receive significant benefits by participating in ATIP:

- The IRS will not initiate an "employer-only" 3121(q) examination during the period the employer participates in ATIP.
- Tip reporting is simplified and in many cases employers will not have to receive and process tip records from participating employees.
- Enrollment is simple. There are no one-on-one meetings with the IRS and no agreements to sign. Employers elect participation in ATIP by checking the designated box on Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips.

Employees also benefit from ATIP:

- Participating employees do not have to keep a daily tip log or other tip records.
- The IRS will not initiate a tip examination during the period the employer and employee participate in ATIP.
- The improved income reporting procedures could help employees qualify for loans or other financing.

Employees who work for a participating employer can easily elect to participate in ATIP by signing an agreement with their employer to have their tip income computed under the program and reported as wages.

Some general requirements for participating restaurants:

- The employer annually elects to participate in ATIP and uses the prescribed methodology for reporting tips by filing Form 8027 and checks the ATIP participation box. Simplified filing is provided for small establishments not required to file Form 8027.
- Employer's establishment must have at least 20% of gross receipts as charged receipts that reflect a charged tip.
- At least 75% of tipped employees must agree to participate in the program.
- Employer reports attributed tips on Employees' Forms W-2 and pays taxes using the formula tip rate
 - The formula tip rate is the charged tip rate minus two percent – the two percent takes into account a lower cash tip rate.
 - The charged tip rate is based on information from the establishment's Form 8027

ATIP is a three-year pilot program for food and beverage employers. Employers will participate on an annual basis. The first annual basis begins January 1, 2007.

Details and requirements for participation for employers and employees are available in Revenue Procedure 2006-30 "Attributed Tip Income Program," at www.irs.gov/businesses/small/article/0,,id=98944,00.html.